



Office of the State Controller

Enhancing Accountability in Government through Leadership and Education



EAGLE Training Program for State Agencies

Introduction: EAGLE Program Overview

November 17, 2010

David McCoy
State Controller

Today's Agenda

<u>Estimated Time</u>	<u>Section</u>
9:30 – 9:35	Section 1: Introduction – Ben McLawhorn
9:35 – 10:15	Section 2: Financial and Compliance Risk Assessment – Wynona Cash
10:15 – 10:35	Section 3: Identify Controls – Amanda Williams
10:35 – 11:00	Section 4: Evaluate and Execute – Jennifer Trivette
11:00 – 11:20	Section 5: Performance Measures – Wynona Cash
11:20 – 11:25	Section 6: SharePoint Demonstration – Josh Georghiou
11:25 – 11:30	Section 7: Wrap-up – Ben McLawhorn



Office of the State Controller

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EAGLE Training Program for State Agencies

Section 2: Financial and Compliance Risk Assessment

Top-Down, Risk-Based

- Is an approach to conducting an Internal Control Assessment that:
 - Identifies the **risks** related to reliable financial reporting and compliance with applicable laws and regulations
 - Identifies the combination of **controls** that addresses those risks
 - Evaluates the evidence necessary to conclude on the **effectiveness** of such controls
- The approach rests on the premise that not all risks are equal, and management's effort should be tailored according to the nature of the identified level of risk.

Top-Down, Risk-Based Approach

Financial Risk Assessment			Compliance Risk Assessment		
Template 01 –A	Assess risk at the financial statement account level.		Template 01 –B	Assess risk for the program/grant.	
	Assess risk at the financial statement process level.				
	Assess risk at the financial statement location level, if applicable.				
Risk Assertion Guidance	Review Financial Statement Assertions Guidance		Compliance Guidance	Review Compliance Internal Control Guidance	
Identify Controls					
Template 02	Narrative - Document the applicable processes/compliance requirements.				
Template 03	Walkthrough - Walk through the applicable processes/compliance requirements.				
Template 04	Service Provider/Reliance on Others - Identify and document reliance on others.				
Template 05	Risk and Control Matrix - Identify the “right” combination of controls.				
Evaluate and Execute					
Template 06	Test Plan - Determine the testing selections for applicable controls.				
Template 06	Test Leadsheet - Perform testing of selected controls.				
Template 07	Issue Summary Log - Document issues and management’s response.				
Performance Measures					
Template 08	General Accounting				
Template 09	Federal Contracts & Grants				
Template 10	Procurement				
Internal Control Certification					
Internal Control Certification Letter Due 7/31/2011	Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.				

Determine Scope of Assessment

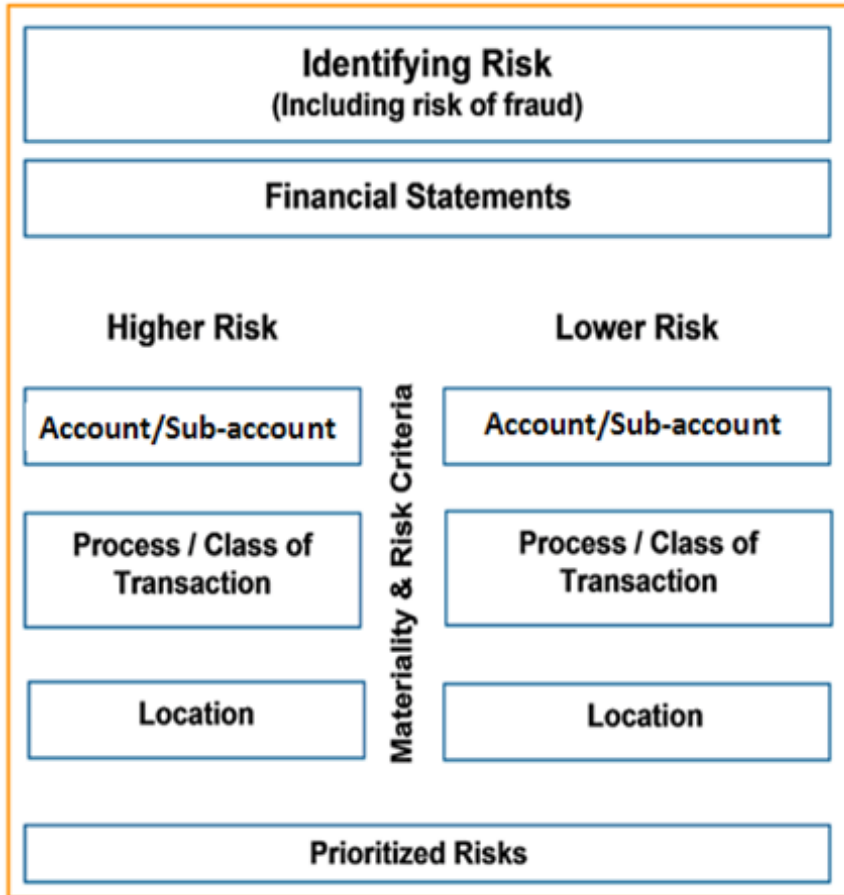
What is in scope for EAGLE implementation?

Agencies are required to document and assess internal control within those *accounts* and *programs/grants* with a combined total risk rating of High or Moderate.

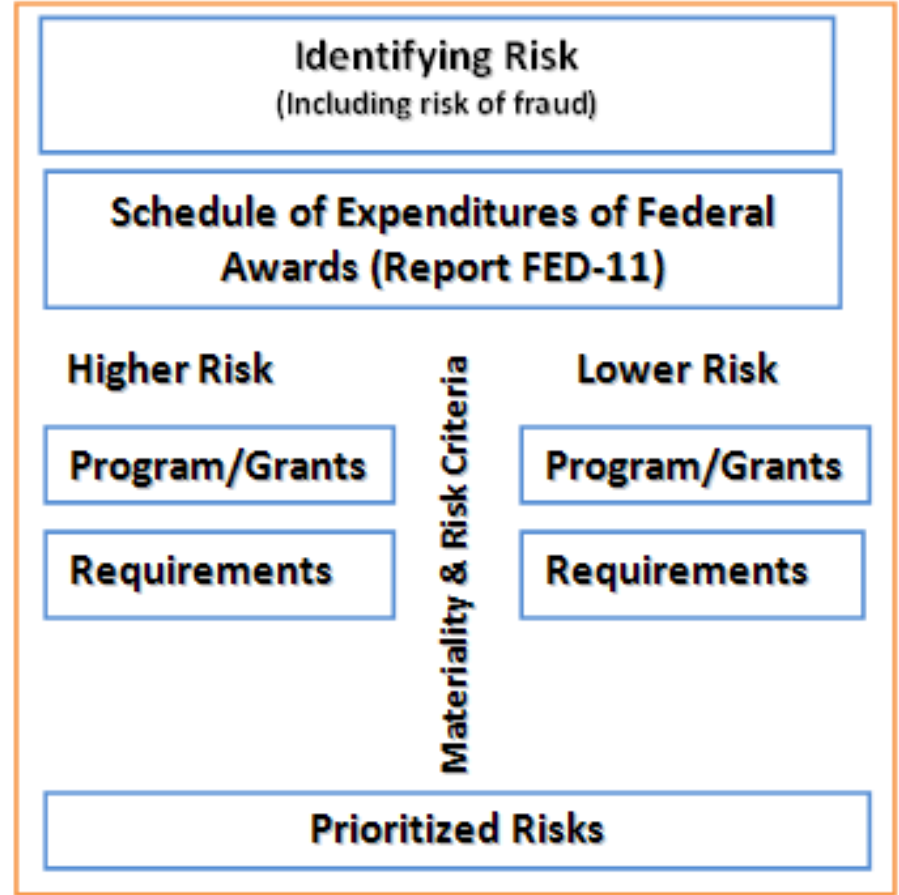
What is a Risk Assessment?

A **Risk Assessment** helps an organization prioritize its financial reporting and compliance with laws and regulations risk in order to be more efficient with its documentation and testing efforts by focusing the majority of efforts on the highest risk areas.

Financial Reporting



Compliance



Components of the Financial Risk Assessment

Account Risk

- Size and Composition
- Transaction Volume
- Transaction Complexity
- Subjectivity and Estimation
- Inherent Risk

Process Risk

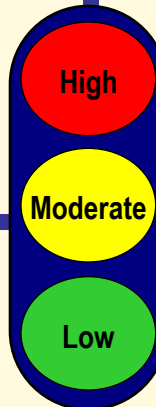
- Size and Composition
- Susceptibility to Loss due to Error or Fraud
- Complexity of Transactions
- Similarity of Transactions
- Level of IT Dependency and Manual Processing
- Degree of Subjectivity and Estimation

Location Risk

- Prior Year Issues
- IT Environment
- Complexity of Business and Accounting Transactions
- Changes in Business or Accounting Transactions
- Quantitative Significance

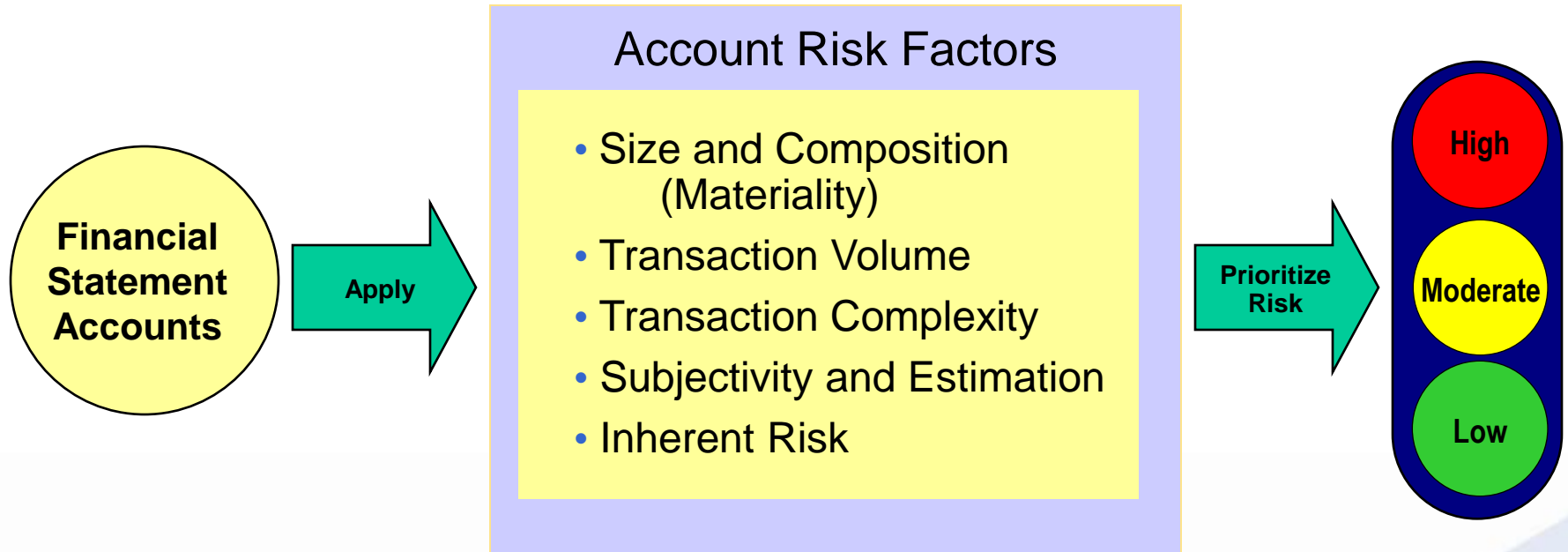
Financial Statement Assertion Guidance

- Completeness
- Existence or Occurrence
- Valuation or Allocation
- Rights and Obligations
- Presentation and Disclosure



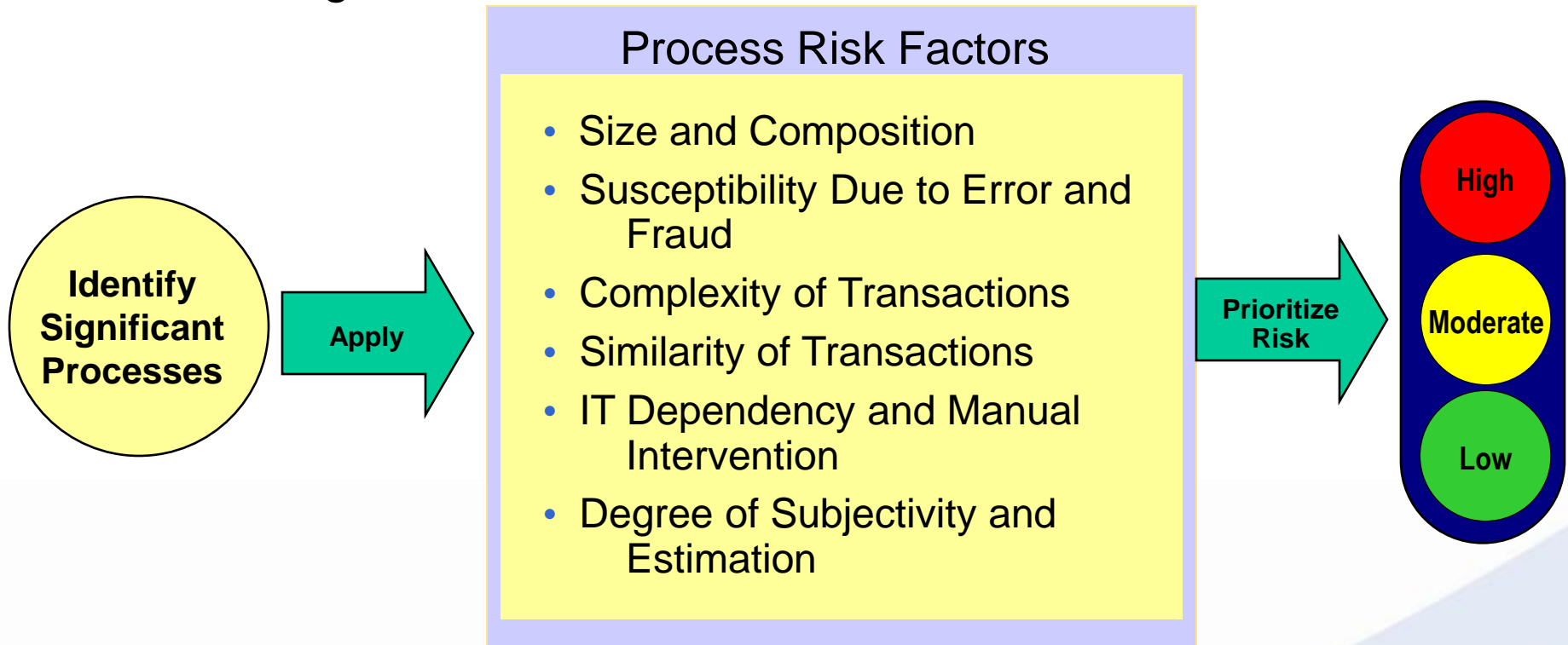
Account Risk Factors

Purpose: To assess the risk at the financial statement account level.



Process Risk Factors

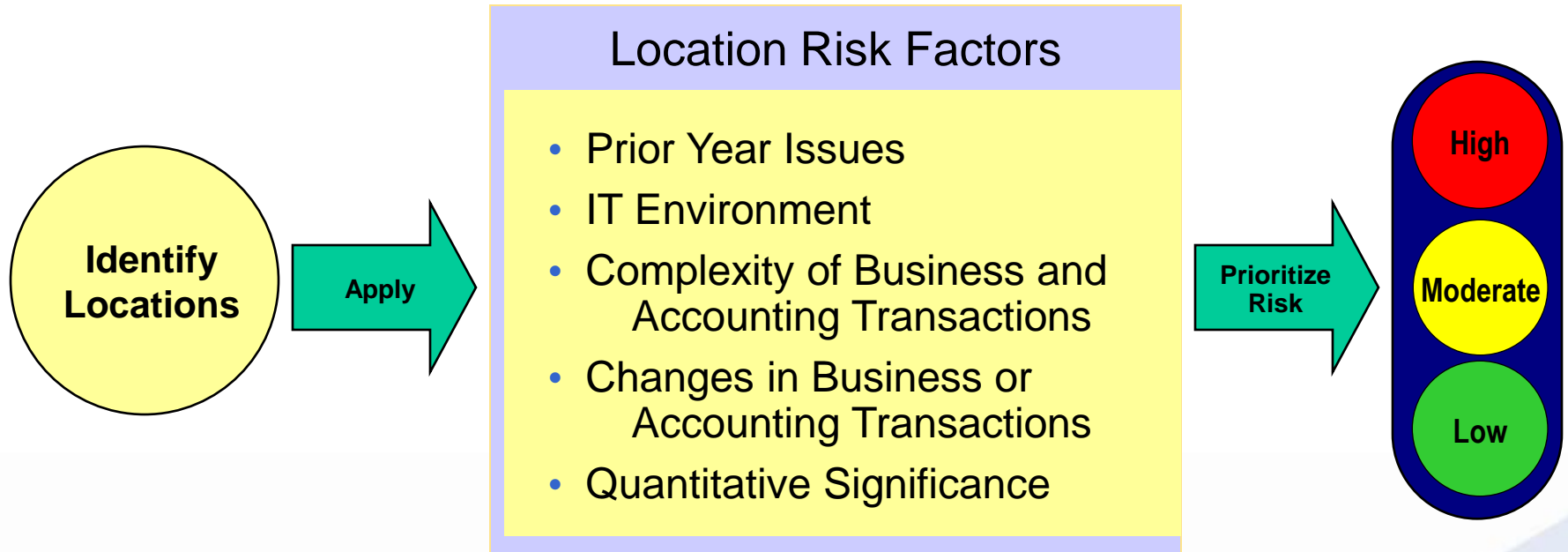
Purpose: To identify significant processes, based on risk factors, related to significant accounts.



For High or Moderate Financial Statement Accounts, you will identify the significant processes and rate the risk using the above criteria

Location Risk Factors

Purpose: To assess the risk by location to determine which locations represent the highest risk for the significant processes.



For High or Moderate Financial Statement Accounts with Significant Process that have multiple locations, you will rate the risk for each location using the above criteria.

Financial Statement Assertions

Existence - An asset or liability exists at a given date.

Occurrence - A recorded transaction or event that pertains to the organization actually took place during the period.

Valuation - An asset or liability is recorded at an appropriate carrying value.

Measurement - A transaction or event is recorded at the proper amount and revenue or expense is allocated to the proper period.

Completeness - There are no unrecorded assets, liabilities, transactions or events, or undisclosed items.

Rights and Obligations - An asset or liability pertains to the organization at a given date.

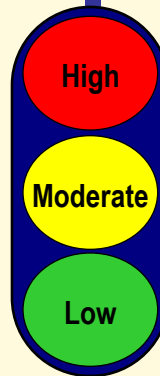
Presentation and Disclosure - An item is classified, described and disclosed in accordance with applicable statutory accounting requirements.

See Template 1 A

Components of the Compliance Risk Assessment

Program/Grant Risk Assessment

- Size and Composition (Materiality)
- Program/Grant Complexity
- Inherent Risk



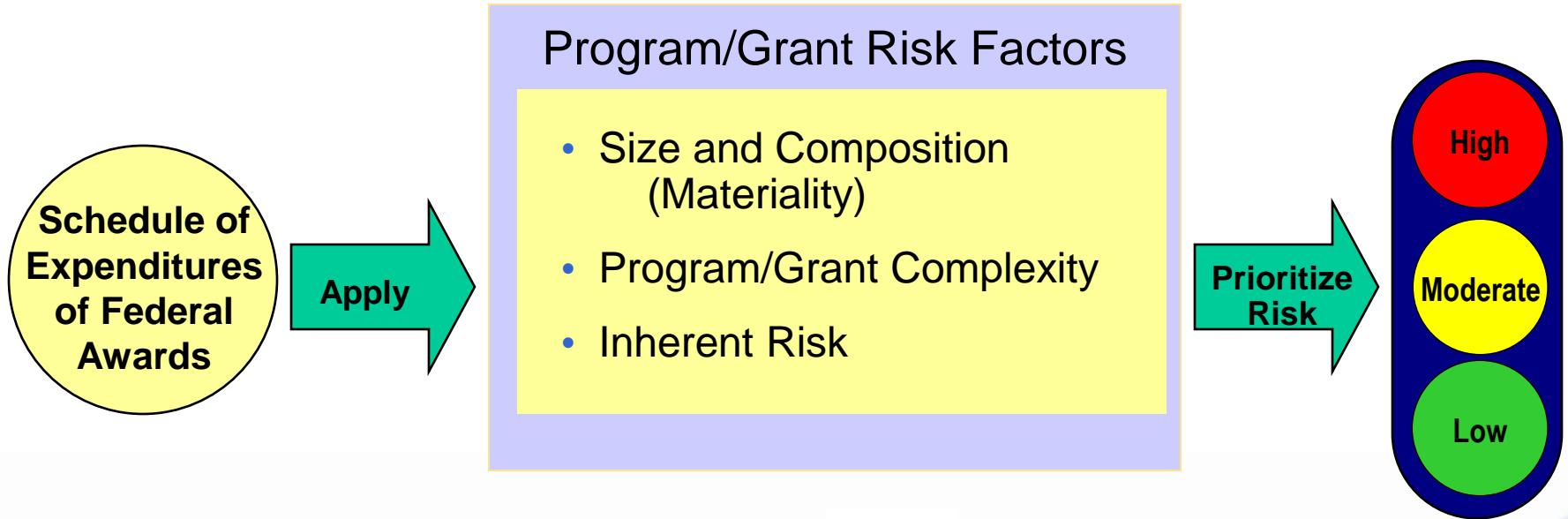
Requirement Risk Assessment

- Compliance Requirement
- Size and Composition
- Complexity of Requirement
- Susceptibility Due to Error / Fraud



Program/Grant Risk Factors

Purpose: To assess the risk at the program/grant.



Requirement Risk Assessment

Purpose: Determine if the requirement is applicable by reviewing the matrix on the Circular A-133 tab.

**Program/Grant
Risk
Assessment**

Review

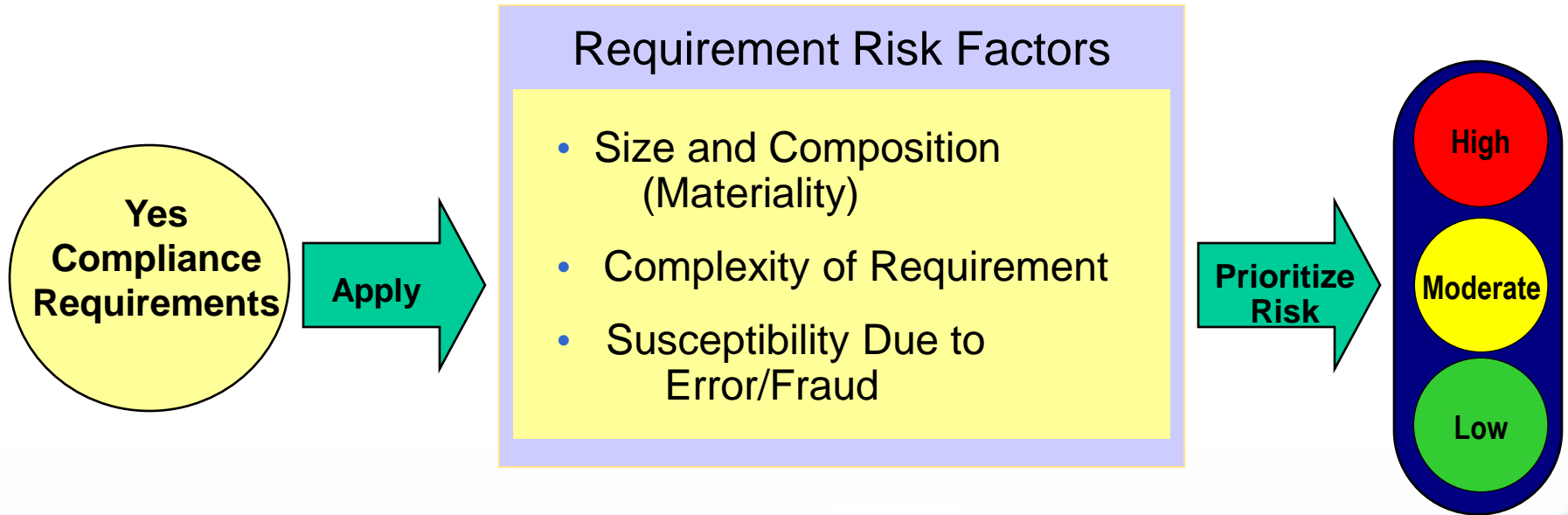
Types of Compliance Requirements

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Davis-Bacon Act
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Program Income
- Real Property Acquisition/Relocation Assistance
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions
- Special Tests and Provisions (ARRA)

**Apply
Yes/No**

Requirement Risk Factors

Purpose: To assess the risk of the program at compliance requirement level.



See Template 1 B



Office of the State Controller









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EAGLE Training Program for State Agencies

Section 3: Identify Controls

Top-Down, Risk-Based Approach

Financial Risk Assessment			Compliance Risk Assessment		
Template 01 –A	Assess risk at the financial statement account level.		Template 01 –B	Assess risk for the program/grant.	
	Assess risk at the financial statement process level.			Assess risk for each requirement.	
	Assess risk at the financial statement location level, if applicable.				
Risk Assertion Guidance	Review Financial Statement Assertions Guidance		Compliance Guidance	Review Compliance Internal Control Guidance	
Identify Controls					
Template 02	Narrative - Document the applicable processes/compliance requirements.				
Template 03	Walkthrough - Walk through the applicable processes/compliance requirements.				
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Evaluate and Execute					
Template 06	Test Plan - Determine the testing selections for applicable controls.				
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Performance Measures					
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Template 09	Federal Contracts & Grants				
Template 10	Procurement				
Internal Control Certification					
Internal Control Certification Letter Due 7/31/2011	Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.				

What is a Narrative?

A **narrative** is a written description of a process / compliance requirement.

What is the Purpose of a Narrative?

- To provide evidence of understanding
- To help identify and document:
 - Risks
 - Controls
 - Control gaps
 - Weaknesses
 - Deficiencies

How do we Write a Narrative?

- Collect available background information.
 - Existing Documentation
 - Policies and Procedures
 - Discussions with Key Personnel
- Only include relevant information.
- Assign control reference numbers.

Compliance Narrative – Template 2

EAGLE Program
Compliance Narrative Template
Agency ABC

Template 02

CFDA Program Title(s) or Cluster: Transit Services Programs Cluster

CFDA #(s): 20.513 & 20.521

Supporting System(s) / Application(s): TEAM

This document provides a description of the controls in place for the above CFDA Program(s) as of FYE 6/30/2011. Internal controls are *Italicized*, Critical Controls are **Bolded** and control weaknesses are underlined.

Compliance Requirement(s): Procurement and Suspension & Debarment

Requirement Risk Rating(s): High

Procurement – Immaterial (*Less than 10% of grant expenditures*)

Suspension and Debarment

The department has not entered into procurement contracts that equal or exceed \$25,000.

Grant funds are passed down to private non-profit entities, local municipalities, and/or operators of public transportation services as subawards to subrecipients. All subawards to subrecipients are

considered covered transactions and should meet the terms of the suspension and debarment compliance requirement. **To ensure compliance, subrecipients are required to submit a signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government. (SD1)** The certification is a part of the application package.

Source(s): Inquiry of program personnel, Review of application package

Interview Date: January 5, 2011

Compliance Requirement(s): Subrecipient Monitoring

Requirement Risk Rating(s): Moderate

Subrecipient Monitoring

Enter narrative here.

Source(s):

Interview Date:

Prepared by: C. Jones

Financial Narrative – Template 2

EAGLE Program
Narrative Template
Agency ABC

Template 02

Fund(s): Consolidated Governmental

Account(s): Accounts Payable

Significant Process: Determine manual AP accrual amount

Significant Process Risk Rating: Moderate

Supporting System(s) / Application(s): NCAS AP Module

This document provides a description of the above Significant Process as of FYE 6/30/2011. Internal controls are *Italicized*, Critical Controls are **Bolded** and control weaknesses are underlined.

Input: Invoices received / approved August 1 - 15

Output: Manual AP journal entry voucher

July 31 is the cutoff for the flagged accrual process. The manual accrual amount is determined for the period August 1 – 15.

Invoices received or not approved for payment until August are reviewed by the Accountant III to determine if they were for services performed or goods received prior to June 30. The Accountant III makes copies of the paid invoices that need to be manually accrued and prepares an Excel spreadsheet listing the

vendor, invoice number and invoice amount. *To ensure that the spreadsheet is accurate, the Accountant III prepares a calculator tape of all invoice copies and verifies that it agrees to the spreadsheet. (MAP1)* To ensure that all necessary accruals have been identified, the Accountant III then prints an NCAS report of all expenditures for the period August 1 – 15 and reviews the report to determine if additional expenditures should be accrued. (MAP2)

The manual accrual amount is recorded on a journal entry voucher with a June 30 effective date. **The JE voucher, spreadsheet, NCAS report and all supporting documents are given to the Controller who reviews the documentation and approves the voucher. (MAP3)**

Source(s): Policies and Procedures Manual – Accounts Payable; Accountant III

Prepared by: T. Smith

Interview Date: 06/11/2011

What is a Flowchart?

A **flowchart** is a diagram that shows the step-by-step progression through a process or compliance requirement. A flowchart may be used in place of, or in addition to, the narrative.

Identify Controls

Control descriptions should include the following details:

How?	<p>How is the control performed?</p> <ul style="list-style-type: none">— Be specific to the procedures performed.— Include details of report names or systems used.
What?	<p>What does the control seek to do?</p> <ul style="list-style-type: none">— Consider whether the control is designed effectively to mitigate these risks.— What is the evidence that the control is working?— How do they know when the control is not working?

Identify Controls (Cont.)

Who?	<p>Who performs the control?</p> <ul style="list-style-type: none">– Use job titles, not a person's name.– Who performs the control in the person's absence?– Is there sufficient segregation of duties?
When?	<p>When is the control performed?</p> <ul style="list-style-type: none">– Are there any dependencies which must be performed prior to the control operating?– Can the control be bypassed and processing continue?– What is the frequency of the control (e.g., daily, annually)?

Types of Controls

- Prevent - Stop something from going wrong
 - Ex. Approval of invoices before processing
- Detect - Find and correct errors
 - Ex. Review of exception reports
- Manual - Performed manually
 - Ex. Comparison of cash counts to daily report
- Automated - Performed by a computer
 - Ex. System edit checks

What is a Walkthrough?

A **walkthrough** traces one representative transaction through a process from beginning to end.

What is the Purpose of a Walkthrough?

- To confirm understanding of procedures and relevant controls
- To verify relevant controls have been placed into operation

How do we Perform a Walkthrough?

- Select a transaction that occurred during the current fiscal year.
- Walk through all procedures and controls (automated and manual) for the transaction.
 - Look for authentication and evidence of the control (signoff, notations, etc.).
 - When possible, walk through procedures and controls as they occur.

Compliance Walkthrough – Template 3

EAGLE Program
Compliance Walkthrough Template
Agency ABC

Template 03

CFDA Program Title(s) or Cluster: Transit Services Programs
Cluster

CFDA #(s): 20.513 & 20.521

Supporting System(s)/Application(s): TEAM

This walkthrough assists in documenting our understanding of the design of controls. We are documenting the procedures performed, evidence obtained and conclusions as to the effective design of the underlying controls and whether the controls have been implemented. Select a transaction that has occurred within the current Fiscal Year and walkthrough all controls listed on the narrative template (template 02).

Compliance Requirement(s): Suspension & Debarment

Requirement Risk Rating: High

Control Description: (*Control Ref#*) To ensure compliance, subrecipients are required to submit a signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government. (SD1)

Transaction Selection: Subrecipient Application for Any Town, NC

Procedures to Perform: We will review the application package to determine if a suspension and debarment certification is included. We will also verify if the certification was signed.

Results: We reviewed the application package for Any Town, NC. A signed suspension and debarment certification was included.

Conclusion: Control SD1 was in place and operating effectively at the time of the walkthrough.

Control Owner's Title: M. Davis, Program Monitor

Interview Date: January 7, 2011

Walkthrough Performed by: C. Jones

Financial Walkthrough – Template 3

EAGLE Program
Walkthrough Template
Agency ABC

Template 03

Fund(s): Consolidated Governmental

Account(s): Accounts Payable

Significant Process: Determine manual AP accrual amount

Significant Process Risk Rating: Moderate

Supporting System(s) / Application(s): NCAS – AP module

This walkthrough assists in documenting our understanding of the design of controls. We are documenting the procedures performed, evidence obtained and conclusions as to the effective design of the underlying controls and whether the controls have been implemented. Select a transaction that has occurred within the current Fiscal Year and walkthrough all controls listed on the narrative template (template 02).

Control Owner's Title: Controller

Interview Date: 06/14/2011

Walkthrough Performed by: T. Smith

Control Description: The JE voucher, spreadsheet, NCAS report and all supporting documents are given to the Controller who reviews the documentation and approves the voucher. (MAP3)

Transaction Selection: JE voucher number #####

Procedures to Perform: We will review JE voucher ##### to verify that the voucher total agreed to supporting documentation and the voucher was approved by the Controller.

Results: We verified that the voucher agreed to the Excel spreadsheet and calculator tape. We also noted that the Accountant III's signature on the 'Prepared by' line and the Controller's signature on the 'Approved by' line. Notes and tickmarks were written on the NCAS report indicating review. (See w/p MAP.1 for copies of supporting documentation.)

Conclusion: The control was in place and operating effectively at the time of the walkthrough.

What is a Service Provider?

A **service provider** is an organization that performs services on behalf of another entity. These activities are outside of the agency's responsibility.

Types of Service Providers

- Central Management Agency
 - A service agency that provides services that impact an agency's internal control environment.
 - Examples: DST, ITS, OSBM, OSC
- Third-Party Service Organization
 - External providers that perform specific tasks or replace entire business units or functions of an agency
 - Obtain a SAS 70, Type II report

Service Provider/Reliance on Others – Template 5

Service Provider Inventory Template				
Significant Process	Service Provider	Service Type	SAS 70, Type II available?	Additional Information
Process payroll	OSC - BEACON	Central Mgmt	No	Not available at this time.
Post to G/L	OSC - NCAS	Central Mgmt	No	Not available at this time.
Claims Adjustment	BCBS	Third-Party	Yes	

What is a Risk and Control Matrix?

A Risk and Control Matrix (**RACM**) is a table that documents risks, controls and the type and nature of controls. It allows for the identification of control gaps and unmitigated risks, and assists in developing testing strategies.

Identify Risks

- A risk is “what could go wrong” that could lead to a financial misstatement or non-compliance with rules and regulations.
- Risk statements should read as if something went wrong and include the resulting impact (or lost opportunity).

Examples

- The agency makes subawards to suspended or debarred entities resulting in noncompliance and potential loss of funding.
- Invoices and not properly accrued resulting in an understatement of liabilities.

Compliance Risk and Control Matrix (RACM) – Template 5

Document:	Risk and Control Matrix (RACM)
Entity:	Agency ABC
Reporting Date:	June 30, 2011
CFDA Program Title(s) or Cluster :	Transit Services Programs Cluster
CFDA #(s):	20.513 & 20.521
System(s) / Application(s):	TEAM

Prepared by:	C. Jones
Reviewed by:	J. Doe

Compliance Requirement(s)	Requirement Risk Rating(s)	Risks	Control Owner	Control Description	Control Ref. #	Automated, Manual or Both?	Prevent or Detect?	Frequency of Control Activity
Suspension & Debarment	High	The agency makes subawards to suspended or debarred entities resulting in non-compliance.	Program Monitor	To ensure compliance, subrecipients are required to submit a signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government.	SD1	Manual	Prevent	Annually
Subrecipient Monitoring	Moderate							

Financial Risk and Control Matrix (RACM) – Template 5

Document:	Risk and Control Matrix (RACM)
Entity:	Agency ABC
Reporting Date:	6/30/2011
Fund:	Consolidated Governmental
Financial Statement Account(s):	Accounts Payable
System(s) / Application(s):	NCAS - AP Module

Prepared by:	T. Smith
Reviewed by:	J. Doe

Significant Process	Process Risk Rating	Financial Statement Assertions	Risks	Control Owner	Control Description	Control Ref. #	Automated, Manual or Both?	Prevent or Detect?	Frequency of Control Activity
Determine manual AP accrual amount	Moderate	Completeness; Existence; Valuation; Rights & Obligations	Invoices are not properly accrued resulting in the understatement of liabilities.	Controller	The JE voucher, spreadsheet, NCAS report and all supporting documents are given to the Controller who reviews the documentation and approves the voucher.	MAP3	Manual	Prevent	Annually



North Carolina

Office of the State Controller









Enhancing Accountability in Government through Leadership and Education



EAGLE Training Program for State Agencies

Section 4: Evaluate and Execute

Top-Down, Risk-Based Approach

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	Assess risk at the financial statement process level.				
	Assess risk at the financial statement location level, if applicable.			Assess risk for each requirement.	
Risk Assertion Guidance	Review Financial Statement Assertions Guidance		Compliance Guidance	Review Compliance Internal Control Guidance	
Identify Controls					
Template 02	Narrative - Document the applicable processes/compliance requirements.				
Template 03	Walkthrough - Walk through the applicable processes/compliance requirements.				
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Template 06	Test Leadsheet - Perform testing of selected controls.				
Template 07	Issue Summary Log - Document issues and management’s response.				
Performance Measures					
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Internal Control Certification					
Internal Control Certification Letter Due 7/31/2011	Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.				

Develop the Test Strategy

Testing occurs at two key stages of a review:

- Design effectiveness
 - Perform walkthrough (i.e., test of one)
 - Collect evidence

Note: From walkthrough and knowledge of the compliance requirements and processes, if it is determined that the control is not designed effectively, do not continue testing, report on Issue Summary Log.

- Operating effectiveness
 - Select critical controls
 - Execute tests of controls

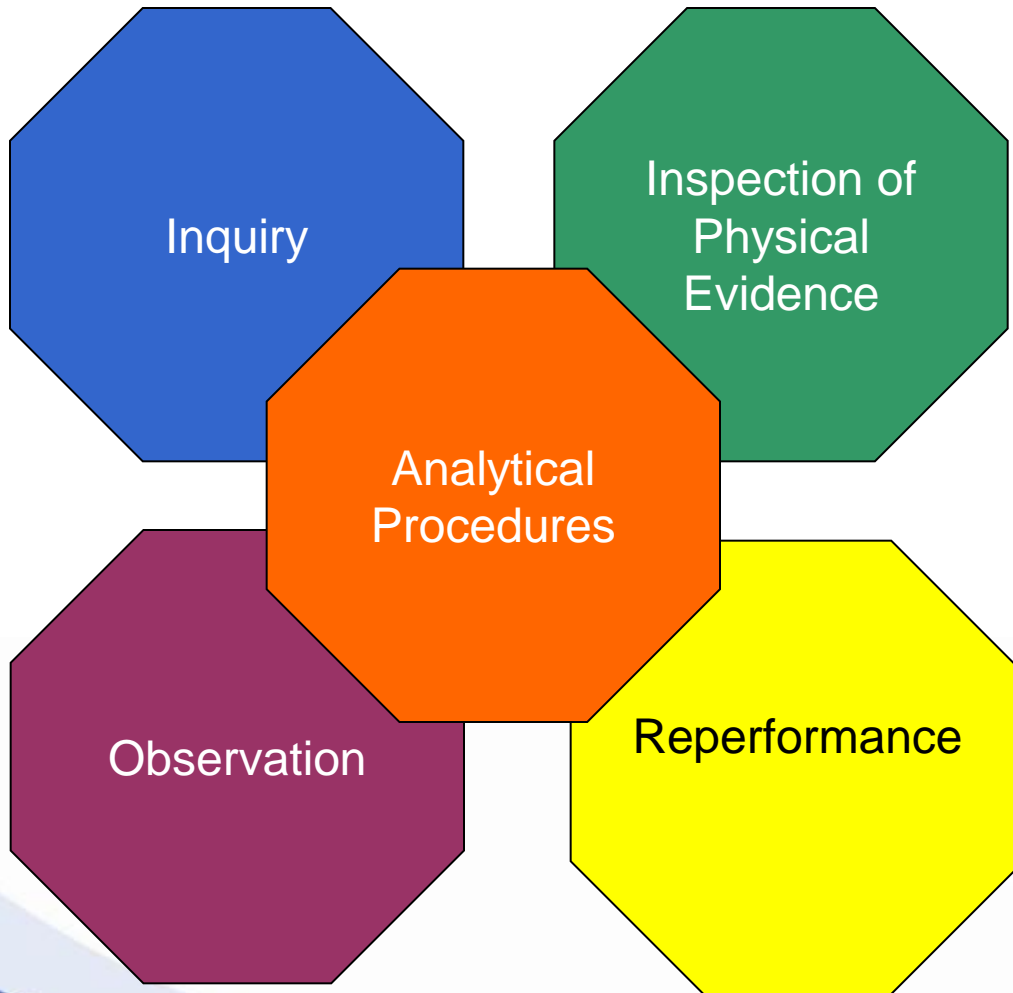
Common Procedures For Testing

Determine Nature, Extent and Timing (“NET”) of Testing:

- Nature - How to test
- Extent - How much to test
- Timing - When to test

Note: Nature, Extent and Timing of testing should vary based on the assessed level of risk.

Nature of Testing



Testing Techniques

- Typically, combination of techniques will be necessary.
- Since inquiry and observation alone generally will not provide sufficient evidence, tests of controls should also include reperformance or inspection of evidence resulting from the operation of the control.

Extent of Testing

- What factors should be considered when deciding the extent of testing?
 - How often the control is performed
 - Number of significant risks to which control relates
 - Nature of control (prevent or detect)
 - Type of control (manual or automated)
 - Persuasiveness of the evidence
 - Sampling strategy
 - Testing period

Timing of Testing

- When to test and the time period to be covered depends on:
 - Nature of the control
 - Frequency with which specific control operates
 - Matter of judgment
- Remember: The purpose is to evaluate controls over a period of time that is adequate to determine whether controls are operating effectively.

Writing the Test Plan

The test plan should include:

- Objective of the test
- Testing procedures

Complete after testing:

- Results
- Conclusion
- Issue raised
- Test workpaper reference

Compliance Test Plan – Template 6

EAGLE Program

Document:	Test Plan
Entity:	Agency ABC
Reporting Date:	June 30, 2011
CFDA Program Title(s) or Cluster :	Transit Services Programs Cluster
CFDA #(s):	20.513 & 20.521

Prepared by:	C. Jones
Reviewed by:	J. Doe

						Complete after testing			
Compliance Requirement(s)	Requirement Risk Rating	Control Description	Control Ref. #	Objective of Test	Testing Procedures	Results	Conclusion	Issue Raised?	Testing W/P Ref.
Suspension & Debarment	High	To ensure compliance, subrecipients are required to submit a signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government.	SD1	1) To determine if a suspension and debarment certification was included in the application package. 2) To determine if the certification was signed by the subrecipient.	Obtain the application package for a sample of subrecipients and test for the following: 1) Inclusion of suspension and debarment certification 2) Signature of authorized representative		<Select Answer>	<Select Answer>	
							<Select Answer>	<Select Answer>	
							<Select Answer>	<Select Answer>	

Execute Tests

- Select sample before testing starts.
 - Do not modify or manipulate once sample is selected.

Sample Size Guidance – Template 6

SAMPLE SIZE GUIDANCE TABLE

Below is the recommended sample size table to be used based on level of risk:

Estimated Population	Frequency of Control	Range of Sample Size	Risk Level		
			Low	Moderate	High
More than 250	More than daily/ Continuous	25	25	25*	25**
61-249	Daily	15-25	15	20	25
40-60	Weekly	5-10	5	7	10
20-39	Bi-Weekly/ Semi-Monthly	3-7	3	5	7
12-19	Monthly	2-4	2	3	4
4-11	Quarterly	2	2	2	2
1-3	Annually	1	1	1	1
N/A	Automated	1	1	3	4

Note1: The risk assessment for a specific process or compliance requirement is based on the judgment of the assessment team and represents the level of complexity, routineness, centralization, and automation.

Note 2: For controls with a frequency of "As needed" or "Event Based", use the "Range of Sample Size" guidance above that is closest to the estimated population. For example, if a control occurs as needed and the actual or estimated population equals 45 occurrences, then our sample size guidance indicates we should follow the "Weekly" frequency which is the closest estimated population size noted above.

* - During the test of controls, if a weakness of control is identified, i.e. an exception is noted, you must expand your test sample from 25 to 30. By doing so, you will determine whether this exception was an isolated incident or a weakness of control.

** - During the test of controls, if a weakness of control is identified, i.e. an exception is noted, you must expand your test sample from 25 to 40. By doing so, you will determine whether this exception was an isolated incident or a weakness of control.

Execute Tests (cont.)

- Describe test steps.
- Test steps should link directly to identified risks.
- Reference workpapers where detailed testing results are contained.
- If identified risks and associated controls are NOT tested, document why they were not tested, for example:
 - Risk is assessed as low.
 - Control has no impact on financial reporting (i.e., operational).

Document Test Results – Test Leadsheet

- Purpose of test work papers:
 - Need to be able to reproduce test
 - Sufficiency of evidence
- As such, test leadsheet should include:
 - Sample size and selection method, including population
 - Procedures performed
 - Source of documentation
 - Definition of an exception
 - Results of test including exceptions identified

Test results should stand on their own, and a prudent person should be able to review and understand the results.

See Template 6

Evaluate Results

- Types of results
 - No exception identified
 - Exception identified
- What is a control exception?
 - Control does not operate as intended.
- Evidence that a control is not operating as intended:
 - Not performed
 - Performed late or inaccurately
 - Control can be overridden.
 - Lack of evidence
 - Item could not be located.

Investigating Control Exceptions

- All control exceptions should be investigated.
- Need to determine nature of control exception:
 - Is the exception pervasive or a one-time occurrence?
 - Does the exception apply to the whole population or particular departments?
 - When did the exception occur?
 - Is the exception a result of a performance issue or lack of documentation?
 - Is your understanding of the control correct?

Options When Control Exceptions Found

- Extend testing (in anticipation of not finding another internal control exception)
- Consider whether a compensating control is available to test
- Deem the control ineffective

Complete the Test Plan

After Testing:

- Results
- Conclusion
- Issue raised
- Test workpaper reference

Compliance Test Plan – Template 6

EAGLE Program

Document:	Test Plan
Entity:	Agency ABC
Reporting Date:	June 30, 2011
CFDA Program Title(s) or Cluster :	Transit Services Programs Cluster
CFDA #(s):	20.513 & 20.521

Prepared by:	C. Jones
Reviewed by:	J. Doe

Compliance Requirement(s)	Requirement Risk Rating	Control Description	Control Ref. #	Objective of Test	Testing Procedures	Complete after testing			
						Results	Conclusion	Issue Raised?	Testing W/P Ref.
Suspension & Debarment	High	To ensure compliance, subrecipients are required to submit a signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government.	SD1	1) To determine if a suspension and debarment certification was included in the application package. 2) To determine if the certification was signed by the subrecipient.	Obtain the application package for a sample of subrecipients and test for the following: 1) Inclusion of suspension and debarment certification 2) Signature of authorized representative	2 errors noted.	Controls are ineffective	Yes	SD Testing Leadsheet
							<Select Answer>	<Select Answer>	
							<Select Answer>	<Select Answer>	

Documenting Issues - How to Document

- Use an Issue Summary Template:
 - Observation
 - Implication
 - Recommendation
 - Management Response

Compliance Issue Summary Log – Template 7

Prepared by:	C Jones
Reviewed by (ICO and CFO):	T. Moore

EAGLE Program
Issue Summary Log
Agency ABC
June 30, 2011

Compliance Requirement(s)	Requirement Risk Rating	Control Description	Control Ref. #	Issue	Risk/Implication	Recommendation	Management's Response
Suspension & Debarment	High	To ensure compliance, subrecipients are required to submit signed suspension and debarment certification stating that the applicant has not been suspended or debarred from doing business with state or federal government.	SD1	A suspension and debarment certification was not included in the application package for 2 of 10 sample subrecipients.	The agency is at risk of making subawards to suspended or debarred entities resulting in non-compliance.	A checklist should be used when reviewing applications to ensure that all required information, certifications, signatures, etc. has been included.	Management agrees with the recommendation. A checklist will be created and used with the next round of applications.



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Section 5: Performance Measures

Top-Down, Risk-Based Approach

Financial Risk Assessment			Compliance Risk Assessment		
Template 01 –A	Assess risk at the financial statement account level.		Template 01 –B	Assess risk for the program/grant.	
	Assess risk at the financial statement process level.			Assess risk for each requirement.	
	Assess risk at the financial statement location level, if applicable.				
Risk Assertion Guidance	Review Financial Statement Assertions Guidance		Compliance Guidance	Review Compliance Internal Control Guidance	
Identify Controls					
Template 02	Narrative - Document the applicable processes/compliance requirements.				
Template 03	Walkthrough - Walk through the applicable processes/compliance requirements.				
Template 04	Service Provider/Reliance on Others - Identify and document reliance on others.				
Template 05	Risk and Control Matrix - Identify the “right” combination of controls.				
Evaluate and Execute					
Template 06	Test Plan - Determine the testing selections for applicable controls.				
Template 06	Test Leadsheet - Perform testing of selected controls.				
Template 07	Issue Summary Log - Document issues and management’s response.				
Performance Measures					
Template 08	General Accounting				
Template 09	Federal Contracts & Grants				
Template 10	Procurement				
Internal Control Certification					
Internal Control Certification Letter Due 7/31/2011	Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.				

Performance Measures

- Aid in the achievement of the organization's long-term objectives and missions.
- Tools used to assist organization to understand, manage, and improve operations.
 - Key Measures
 - Productivity Measures
 - Administrative Measure
 - Other Measures

Performance Measures

- General Accounting
- Federal Contracts & Grants
- Procurement

See Performance
Templates

Internal Control Certification – Due July 31, 2011

Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.



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Section 6: SharePoint Demo

EAGLE SharePoint Site

- As risk assessment templates are completed, we recommend they be loaded into the EAGLE SharePoint Site.

<http://www.osc.nc.gov/eagle/index.html>



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Section 7: Wrap-up

Things to Remember

- This is your assessment.
- We are here to help.
- Establish a time schedule to help you stay on track:

**** Example (Recommendations only) ****

- Completion of Risk Assessment – January 15, 2011
 - Completion of Documentation and Controls; Performance of Walkthroughs – March 31, 2011
 - Completion of Testing to Determine the Operating Effectiveness of Controls – June 30, 2011
 - Completion of Self-Assessment and Submission of Annual “Letter of Certification” – July 31, 2011
- The only deadline you need to remember is July 31, 2011.



Where to go for Additional Assistance

- OSC's EAGLE Website

<http://www.osc.nc.gov>

- OSC EAGLE Support

Telephone: (919) 707-0795

Email: OSC.EagleSupport@lists.osc.nc.gov

THANK YOU!!